



**Kirk Harralson** is a Senior Research Analyst at Roadnet Technologies, a wholly-owned subsidiary of United Parcel Service (UPS). Prior to moving to Roadnet, he held several managerial positions at UPS. In March 1993, he was named an Industry Fellow with the Intelligent Vehicle Highway Society of America and is currently working there on special assignment.

Mr. Harralson received his MS degree in Operations Research from the University of Maryland (College Park) and his BS degree in Industrial Engineering from Texas Tech University in Lubbock, Texas.

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Kirk Harralson, Industry Fellow  
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### PARTNERS IN INTERMODALISM

At UPS, our business has always been service but much of our progress has been linked to the growth of intermodalism. My comments today will reflect on some of the challenges we faced in our early intermodal growth and identify some current ones.

In the beginning, UPS started with foot messengers, then we put them on bicycles, and later at the wheel of a fleet of trucks. Those trucks got bigger, and we piggybacked some of them on railroad cars. When our business grew to cover vast distances, we launched our own airline. Now we are the seventh largest in the country.

Over the past 86 years, UPS has evolved from a company with essentially one product--with little emphasis on technology and limited modes of transportation--into a worldwide enterprise with a wide range of products utilizing advanced technology and many different types of transportation. We are truly an intermodal organization and have a vested interest in the success of intermodal operations.

With 1992 revenues of \$16.5 billion, UPS is now the largest common carrier in the world. Last year our 252,000 employees delivered more than 3.4 billion ground, air parcels and other documents, and provided automatic daily pick-up service to over 1.2 million customers.

The UPS airline flies more than 1,300 flights daily from more than 600 airports worldwide.

In 1992 our ground fleet of more than 126,000 vehicles traveled over 1.9 billion miles and burned a quarter of a billion gallons of fuel.

During the same period, UPS put over 582,000 trailers-on-flat-car (TOFC), which resulted in payments to railroads in excess of \$460 million.

World class logistics for UPS means door-to-door service--on-time, every time. To meet that challenge, we have had to stop considering transportation on a mode-by-mode basis or lane-by-lane basis. Each mode and each lane must fit into an overall distribution strategy that can move goods to markets as small as a suburb or as big as the globe.

UPS has a sophisticated intermodal delivery system which is based upon extremely tight schedules. Adherence to these schedules allows UPS to deliver on-time service to our customers. Our customers count on us, they trust us--and we take that very seriously.

We are the supply chain for many of our customers. And, the supply chain is often the most critical strategic element in competition.

Here in the U.S., more than \$585 billion will be spent this year alone on business logistics. The logistics bill worldwide is more than \$2 trillion.

As transportation professionals, it comes as no surprise that managing logistics demands a total management of the supply chain.

The serious challenges transportation engineers and logistic managers must overcome include the internal territorial and political barriers that prevent many of us from addressing the entire span of the chain.

Health care professionals talk about holistic medicine--dealing with the whole human being rather than the individual organs. We, too, need to take a holistic approach to distribution.

**Our challenge is to find ways to achieve the greatest value from the entire supply chain.** Customers don't care what mode of transportation you use, provided the package arrives on time. We know that the best way to lose a customer is to send their package to Bangladesh instead of Boston.

At UPS, we don't make those kind of mistakes. We have worked hard to make our system work--our competitors think we are too obsessive and they may be right. We can't help it, we are sticklers for details.

We emphasize cost and quality at UPS--that has always been the key to our success.

From uniformed drivers to well-maintained vehicles, we emphasize courtesy and an attitude that we owe our job to our customers.

And just as UPS promises quality service, safe operations, appearance standards, and reliability to its customers, UPS demands the same from its workforce and its intermodal service partners.

We have worked with our service partners at the railroads since the 1960s when we expanded to the south and west. Every new mark on our

growth chart has meant more business for rail. With deregulation, and our further expansion, the railroads have become more responsive, and better equipped to meet the needs of our company.

With the advent of rail deregulation under the Staggers Act, railroads have benefitted from the absence of burdensome intrastate regulation. We now must work together to remove the last vestiges of state regulation of motor carriers. The connectivity between rail, air, and truck will only be enhanced further.

For example, only after the railroads were deregulated did you see an appreciable growth in intermodal rail/truck movements. UPS began putting several thousand trailers on rail after the railroads were allowed to become more efficient and able to meet our demanding service times and quality standards. In this situation, both UPS and the railroads benefitted. UPS benefitted from lower operational costs and the ability to more effectively balance our trailer fleet. Last year, UPS alone accounted for 10 percent of the total intermodal rail car loadings--making us the single largest intermodal rail shipper in the nation.

Intermodal transport is an example of increased efficiency in one mode benefiting other modes. Intermodalism, by its very nature, accommodates change--but public policy, both in Washington and in the states, has been slow to seize the opportunities.

Since the passage of the ISTEA, the "I" has gotten lost within the context of modal-specific turf battles over declining revenues. We all lose when this occurs. When these short-sighted skirmishes are overcome, all modes profit.

For example, over a decade ago, we made a big change following the passage of the Surface Transportation Act, which allowed us to use twin, 28-foot trailers in all of our nation's interstate and primary highways.

While that legislation helped us to be more productive, it also caused a lot of grey hairs for our friends at the railroads, who saw motor carriers' productivity benefits as a threat to their business.

But our demands to be more productive ultimately led to the growth in the rail business. The railroads changed with us. Our growth was their growth.

Those accommodations to the new intermodal realities of transportation have been very profitable for the nation's railroads. Over the past ten years, UPS TOFC movements have increased by 71 percent and our rail freight payments by 75 percent.

TOFC growth occurred in spite of and because of the fact that trucking companies became more productive with the use of twin trailers.

Typically, everyone at the railroad from the brakeman to the chairman is aware of the urgency of UPS traffic. Like I said, we're demanding.



And, in most cases, the railroads meet our service expectations and at a price we can afford and at a level of reliability that meets our standards.

Innovative intermodal operations have solved other problems in our system. For example, in 1979, we added MARTRAC to our company portfolio. Our MARTRAC operation moves full refrigerated trailer loads of perishables, fruits, vegetables, and dry goods from the West Coast to the East Coast, and from Florida to the Northeast.

We have expanded our company, improved the bottom line, and solved a chronic west-east equipment utilization problem that cost us millions during the 1970s. To solve the problem, we created more business opportunities on eastbound freight, which compliments our existing westbound package traffic. It is a concept that has worked so well that MARTRAC has grown to be the largest specially designed fleet of its type in the country.

How does it work?

We send draymen right into the California produce fields. They pick up the product, and then MARTRAC starts the process east using a number of railroads.

Drayage moves the load to produce markets from the East Coast rail yards and then drops the empty trailers at several UPS facilities. The MARTRAC trailer is then loaded with packages for west bound destination via TOFC, resulting in improved equipment utilization. Last year MARTRAC moved over 18,000 loads on various railroads to many different destinations--serving over 300 customers nationwide and generating \$44 million in revenue.

**And, we did all of that with just 26 employees.**

In addition to the need for reliable time schedules, we continue to face the challenges to:

- Prevent service failures,
- Create a damage-free environment,
- Facilitate access to rail yards,
- Improve interchange of equipment,
- And reduce costs through greater productivity.

We demand a lot from our service partners at the railroads, because we need a lot from them. How do we insure that their level of service is compatible with ours? Well, we have developed a number of internal controls. These controls and standards produce the results that have made us a winner--better service, happy customers, and higher profits.

We rate and rank our rail partners based on the percentage of traffic carried versus the percentage of service failures incurred. A UPS-quality rating is reported back to all rail carriers on a regular basis. Preventing

service delays due to train derailment, rerouting and other track conditions are crucial.

Timely equipment handling and proper interchange is another area where we are still working with railroads for greater improvement. On critical days, UPS can't afford to use more than three to five minutes for load/unload operations at rail ramp facilities.

To operate effectively, the railroads are required to maintain greater control over their equipment and draymen than is needed in traditional rail service. Drayage access to and from intermodal rail facilities is a must.

Many of our service partners need to recognize what we have learned the hard way from our customer base: intermodal transportation must become more responsive to the customer's needs.

Our newest and most ambitious intermodal project is a joint venture with the Santa Fe and Conrail Railroads, and the state of Illinois. We call this project our National Consolidation Hub. On a space of 240 acres, we will have 1.2 million square feet of working space adjacent to Conrail and Santa Fe Siding--at a cost in excess of 180 million dollars. That investment will allow us to process up to three million packages per day and involve more than 1,500 TOFC movements per day.

At UPS, we strive to fill the niche as a multimodal carrier which offers a transportation "supermarket" of services where our customers can satisfy all their package transport needs with one-stop-shopping.

The key to our intermodal growth and the overall success of our company has been the "bottom line" results--cost, time, efficiency, dependability, security, and flexibility to meet changing conditions.

Our country's ability to compete in the world marketplace depends upon our ability to move people and products quickly, safely, and efficiently.

Another important challenge that we face in the intermodal front is an issue of perception.

Ever since the congressional debate over the Intermodal Surface Transportation Efficiency Act of 1991, our legislators and others have gotten used to speaking of "intermodal" systems in terms of movement of people. Perhaps the most important near-term task we face this year is to change that perception. Our legislators, metropolitan planning organization, and the public must be made to understand that "intermodal" refers to movement of freight--even more than it does to the movement of people.

The U.S. finds itself competing more and more against foreign companies that have to spend less for labor and insurance. That is the challenge for the future. It doesn't matter if we are railroads, airlines, steamship lines, or truckers. Nothing will do more to determine the future economic wealth of our country than providing integrated, cost-effective, quality service to our customers.

In a sense, we have won the battle. Americans are convinced of the need to get it there quickly, and at a price they can afford. At UPS, we take great pride in creating that sense of security. Meeting the challenges I mentioned today will not be simple and won't be accomplished overnight. Success will depend on discipline, knowledge, and that master teacher--experience.